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SUBJECT: ECUADOR,S NEW ECONOMIC CZAR: SCUFFED GOODS,
POLISHED PRESENTATION

REF: A. A) QUITO 1669

- [IB.](#) B) QUITO 1680
- [IC.](#) C) QUITO 1722
- [ID.](#) D) QUITO 1735

Classified By: EconOff Josh M. Cartin for Reason 1.4(b) and (d)

[I1.](#) (C) Summary: New Ecuadorian Economy Minister Armando Rodas recently presented a sober six-month economic plan, lending a technocratic polish to an appointment painted in politics.
End summary.

[I2.](#) (C) On July 17, Ecuadorian Minister of Economy and Finance Armando Rodas (for biodata, see reftel A) presented his economic plan to President Palacio. Rodas was named Minister on July 7 after a cabinet reshuffle that also saw the departure of the Ministers of Trade and Government. Rodas, predecessor, Diego Borja, had become associated too closely with the controversial Hydrocarbons Law, of which he was a key architect, and had difficulty in leading its implementation. Rodas is Palacio,s fourth Economy Minister in his little over one year as President.

[I3.](#) (C) Rodas has remained unruffled in the face of Borja,s recriminations against Palacio after his dismissal. Neither has Rodas responded to Borja,s accusations that his strings are being pulled by now dismissed Presidential Secretary Jose Modesto Apolo (reftel B). He has also managed to sidestep an investigation by the Attorney General for his involvement in the investor-friendly, June 29 version of the regulation of the Hydrocarbons Law (reftel C).

[I4.](#) (C) Despite public warnings from the outgoing Borja to the contrary, Rodas has apparently not steered away from Borja,s relatively austere fiscal program, vowing not to increase total government spending from current levels. Rodas also adjusted downward by approximately \$200 million Borja,s earlier projected gains from changes to the Hydrocarbons Law.

(Comment: Two theories prevail as to the discrepancy in the Hydrocarbons Law windfall: industry contacts tell us Borja's numbers were inflated, so the downward revision probably reflects a more accurate projection of tax collection from the new law, and Rodas is working hard to burnish his technocratic credentials by projecting fiscal conservatism; the possibility also exists that the forecasted windfall has not diminished, but now is being manipulated downward to facilitate future, extra-budgetary "disbursements". End comment.)

¶15. (C) Rodas announced that he would allocate more money to social programs, from \$285 million to \$380 million, which will reduce the government's fiscal surplus target this year from \$556 million (1.4% of GDP) to \$417 million (1.2% of GDP). In a more ambitious step, Rodas proposed setting up a trust fund that would reinvest revenues from Occidental Petroleum's former Block 15, estimated at \$838 million, into the energy sector, to help guarantee production targets, improve outdated refining capacity, and to reduce subsidies and the deficit in the electricity sector. Rodas plans to present these plans to Congress as an urgent proposal after August 6.

¶16. (C) The Ambassador met Rodas coincidentally at a recent dinner at the Korean Embassy. Rodas appeared busy, ambitious and fully engaged with his job. He said that he knows he is a short-timer but is anxious to achieve some positive results during his six months in office. He lamented, however, that he has been unable to fill positions within the ministry due to the brevity of the term of office. He mentioned that one major priority was to encourage Congress to pass the Electricity Law, the ratification of which may have a positive impact on the interests of key US investors in Ecuador (reftel D). During the dinner, he received several telephone calls from members of the Congressional committee working on this issue.

¶17. (C) In conversation, Rodas echoed the standard GOE lines about both the ATPDEA extension: that it's a "drug issue, not a commercial issue"; and the "Hinchey-Markey Amendment" recently passed by the House: that it reflects a unilateral decision by the US Congress to renegotiate petroleum exploration agreements.

¶18. (C) Comment: Ecuador's ability to meet Rodas' economic targets will depend largely on Petroecuador's ability to maintain petroleum production levels in Block 15, as more than 75% of the government's windfall revenues resulting from both the change to the Hydrocarbons Law and the cancellation of Oxy's contract depends on net proceeds from crude exports from Oxy's former fields. Although Rodas has projected responsibility in his public pronouncements and appearances, there will be little public enthusiasm for fiscal austerity in the run-up to the elections, and we doubt his ability to make any substantive accomplishments during his short term in office. Moreover, we are concerned that his reportedly close ties to Jose Modesto Apolo portend a willingness to use his position for personal gain. End comment.

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